

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Notice FC-124

1980-B

For: State and County Offices

Capitalization of Interest When Restructuring Guaranteed Loans

Approved by: Deputy Administrator, Farm Loan Programs

Carolyn B. Cooksie

1 Overview

**A
Background**

On October 13, 1995, a Special Procedure Notice was issued revising FmHA Instruction 1980-B to allow for the capitalization of accrued interest when restructuring a guaranteed loan. Many County Offices have received these requests from lenders.

**B
Purpose**

This notice answers questions that have arisen as a result of this regulation change.

**C
Contact**

Questions about this notice may be directed to LSPMD, Guaranteed Loan Servicing Branch, through the Area Office.

Disposal Date

May 1, 1998

Distribution

State Offices; State Offices relay to County Offices

2 Clarifying Information

A

Approval of Restructuring Actions

When interest is to be capitalized, FmHA Instruction 1980-B, section 1980.124 (a)(7) requires Agency approval of guaranteed loan restructuring based on the new loan amount and loan approval authorities. Other servicing actions may continue to be approved by the Agriculture Credit Manager according to FmHA Instruction 1980-B, section 1980.130 ADMINISTRATIVE E.

Approval of servicing actions will be provided to lenders in writing with a copy to the appropriate FSA servicing office. The approval letter should clearly summarize the terms of the restructuring that are approved and other conditions that have been applied. FmHA 1980-84 or FmHA 1980-85 may be executed by the local loan approval official or his or her designee. A copy of the approval letter should be attached to this form.

Example: A lender wishes to reamortize a delinquent Farm Ownership (FO) loan with a principal balance of \$260,000 and an interest balance of \$30,000. Since the new principal balance will be \$290,000, this request should be forwarded to SED or his or her designee for approval.

B

Exceeding Statutory Limits

When accrued interest causes the loan amount to exceed the authorized loan maximum, rescheduling or reamortization may be approved **only without capitalization of the amount that exceeds the limit.**

As provided in FmHA Instruction 1980-B, the maximum principal balance is \$300,000 for guaranteed FO loans [section 1980.180 (d)(1)] and \$400,000 for guaranteed Operating (OL) loans [section 1980.175 (d)(3)]. The maximum indebtedness for each loan type is the same if it is combined direct and guaranteed loans. If the borrower has an Economic Emergency (EE) loan, the total combined direct and guarantee indebtedness for any combination of FO, OL, Soil and Water or Recreation Loans is \$650,000. If the borrower does not have an EE loan, the total combined indebtedness is \$700,000.

Continued on the next page

2 Clarifying Information (Continued)

B

Exceeding Statutory Limits (Continued)

Example: A delinquent FO loan has a principal balance of \$290,000 and accrued unpaid interest of \$40,000. The lender may restructure the loan by capitalizing \$10,000 of interest and establishing a new principal amount at the statutory maximum of \$300,000. The lender may then establish a repayment schedule for the \$30,000 remainder. Only the \$30,000 will be covered by the guarantee, not interest accrued on the 30,000.

C

Approved Lender Program Loans

FmHA Instruction 1980-B, Exhibit A was not revised for this change as it contains no prohibition against capitalizing interest. Loans made under the Approved Lender Program do not require a new Exhibit A, Attachment 1 or 2; however, other guarantee documents should be revised according to FmHA Instruction 1980-B, section 1980.124 (a)(7).

D

Interest Rates

FmHA Instruction 1980-B, section 1980.124 (a)(8) reinforces the requirements of FmHA Instruction 1980-A, section 1980.22 (b)(2). Lenders are allowed to have late payment charges and default interest rates. However, late payment charges or default interest rates are not covered by the guarantee and cannot be capitalized.

E

Reporting Requirements

For correct reporting procedures, see Notice FC-98. Also, when the loan restructuring brings current an existing loan that has been in default greater than 60 days, a new FmHA 1980-44 must be completed by the lender and sent to the County Offices so that they can notify the Finance Office that the loan is now current and the default, if previously reported, can be removed.

G

Funding

If capitalization of interest increases the amount of interest assistance required, the obligation of additional interest assistance is required according to FmHA Instruction 1980-B, Exhibit D, section XIII, paragraph D.
